BEFORE THE ILLINOIS COMMERCE COMMISSION

Request for Public Comment Concerning The	**:**
Implementation of Governor Blagojevich's Proposal	**:**
For a Sustainable Energy Plan for Illinois	**:**

Comments of PJM Environmental Information Services, Inc.

I. INTRODUCTION

On February 11, 2005, Illinois Governor Blagojevich presented the Illinois Commerce Commission (Commission), for its consideration, a proposal for a Sustainable Energy Plan (Proposal) that includes both a Renewable Energy Portfolio Standard and an Energy Efficiency Portfolio Standard. In response, the Commission opened an informal inquiry on how the Commission should implement the Proposal. PJM Environmental Information Services, Inc. (PJM-EIS) appreciates and supports the efforts of the Governor and the Commission, and welcomes the opportunity to provide comments on the questions raised by the Commission.

In his Proposal the Governor recommended "that the Illinois Commerce Commission in cooperation with the Illinois Department of Commerce and Economic Opportunity conduct a study by no later than December 31, 2008 to determine the feasibility of interstate trading of renewable energy credits with other states that have adopted Renewable Portfolio Standards and which allow purchases of renewable energy generated in Illinois to meet those standards."

PJM-EIS is developing the Generation Attribute Tracking System (GATS) which is expected to be operational this calendar year. The GATS will allow for such interstate trading of renewable energy credits and purchases of renewable energy generated in Illinois to meet such

Renewable Portfolio Standards. PJM-EIS urges the recognition by the Commission of the GATS so that renewable energy generated in Illinois will be readily available to purchasers of renewable energy resources.

The GATS is being developed so that it can be used by entities such as electric utilities and alternative retail electric suppliers that serve retail load to satisfy various state regulatory requirements imposed on such entities. There are efficiencies to be gained by having a single system that can be used by entities that serve load in multiple states within PJM Interconnection, L.L.C. (PJM). While the GATS is being developed for the PJM service territory and the PJM electricity market, a renewable generation resource, even though not a member of PJM or not located in the PJM service territory, can register with the GATS and have certificates created to use within PJM. In addition, a load server that conducts business outside of the PJM market can register for an account with the GATS and export certificates for use in markets outside of PJM. However, the generation resource must be eligible for renewable portfolio standards within a PJM state. The GATS is able to track the attributes of any generation resource, including alternative resources such as solar, wind, hydro and biomass. The GATS will create certificates for each megawatt-hour (MWh) of generation that is produced within or imported into PJM, and the GATS would be able to support fuel mix and emissions disclosure requirements as well as renewable portfolio standards. For instance, if the renewable resource is located in Illinois but is not located in the PJM service territory, GATS could create such a certificate for that resource and the electricity supplied from that resource could be used to satisfy the renewable portfolio standard requirement of the entity that serves retail load in the PJM Illinois service territory.

II. COMMENTS

A. Overview of the GATS

The GATS project was initiated in response to inquires from state regulatory commissions, other state agencies, and market participants which must comply with state-imposed fuel mix and emissions disclosure and renewable portfolio standard requirements. The states and PJM market participants that participated in the working group that developed the conceptual system design for the GATS believed that a single, regional, integrated system would be the most cost-effective approach to serve the public policy and regulatory needs of the multiple state agencies responsible for implementing their respective requirements. These parties further believed that an integrated system would be more accurate, and prevent various issues such as double counting of renewable resource credits.

The GATS is designed to be policy neutral to the greatest extent possible - it does not favor one renewable resource over another nor one state's resource requirements over another, - and it will support a variety of state policies and voluntary green markets. The design of the GATS is an "unbundled," certificates-based tracking system. This means that the attributes, or characteristics of the generation, are separated from the MWh of energy and recorded onto an electronic certificate after the MWh of energy is produced. There is one certificate, with a unique serial number, representing the attributes of the generation for each MWh produced.

A certificates approach provides an efficient process for load serving entities such as electric utilities and alternative retail electric suppliers to develop specific products for retail consumers with a high degree of certainty that their product claims can be verified. For owners of generation, a certificates approach provides a means to precisely measure the value to the retail consumer of designated attributes of each generation unit. For state agencies seeking effective ways to implement policies and regulations, a certificates approach and central database

will provide a means to monitor, verify and document compliance with state programs that require use of generation with certain generation attributes.

The GATS database will contain MWh generation information for each individual PJM generation unit or qualifying resource not in PJM that has registered with GATS, and it will create generator specific electronic certificates that identify the relevant generation attributes necessary for electricity suppliers to satisfy state policies and to support voluntary green markets. The major data that will be included in the GATS database are:

- Meter information from the PJM markets settlements database (i.e., generator run data);
- Emissions data (primarily sourced from the EPA and supplemented by data from other sources, as available, to improve accuracy and/or timeliness); and
- Static information input by the GATS Administrator and/or the generator (such as fuel source, location, state program qualification, etc.).

The system will collect information on all generation resources located in PJM, or registered with GATS, all MWh produced, and all load served within the PJM region. The system is designed to collect information and track ownership of imports of certificates to the PJM system in the same manner, whether from control areas not in PJM or from behind the meter resources (such as solar). All certificate transfers will be recorded in the GATS.

The GATS will:

- ensure accurate accounting and reporting of generation attributes;
- facilitate bilateral transactions of the attributes via certificates between market participants;
- support the current requirements of various state agencies and have the flexibility to accommodate varied and evolving state policies or programs;
- mitigate seams issues with adjoining markets to allow the potentially of trading certificates across regions; and
- promote a robust renewable market.

The GATS will be offered through PJM-EIS, a special purpose entity created for the sole purpose of implementing the GATS. The users of the GATS will enter into an agreement with PJM-EIS regarding the terms and conditions associated with their use of the GATS. PJM-EIS will not enter into agreements directly with the state regulatory agencies regarding the use of the GATS to meet state statutory or regulatory requirements.

B. PJM-EIS Comments to Renewable Energy Portfolio Standard Issues Identified in the Request for Public Comment

In the following comments, PJM-EIS offers specific responses to some of the issues raised by the Commission in the Renewable Energy Portfolio Standard section of the Request for Public Comment. PJM-EIS also refers the Commission to the PJM-EIS website, pjm-eis.com, for further background on the proposed GATS design.

1. Renewable Energy Procurement Standard

PJM-EIS does not opine as to what the most effective way would be to implement these standards and attain the stated goals. However, PJM-EIS notes that New Jersey and Maryland have based their renewable portfolio standard requirements on a regional market of Renewable Energy Credits, and endorse the use of the GATS as the regional system for creating and tracking the Renewable Energy Credits. In addition, Pennsylvania and the District of Columbia endorse a regional market of Renewable Energy Credits and a renewable energy credits system like the GATS.

2. Eligible Renewable Energy Resources

PJM-EIS does not opine as to what the current capacity and output of these resources are within the State of Illinois or how the output of these resources compare to the various standards identified in the Governor's Proposal. However, PJM-EIS stresses that the GATS is able to track

all generation resources, including methane recovered from landfills and the renewable resource types identified in the Renewable Energy, Energy Efficiency, and Coal Development Law of 1997, including wind, solar, thermal energy, photovoltaic cells and panels, biomass and hydropower.

PJM-EIS notes that Illinois has the geographical benefit of good wind availability, and these resources should be able to benefit from a broad market in which they can sell their renewable attributes. The primary benefits of a large geographic area which allow purchases from Illinois resources to meet the Renewable Energy Standard relate to competition, market liquidity, fungibility of certificates, minimization of seams issues, and more cost-effective development and operation. Larger regions, by virtue of a larger market, include more buyers and sellers, which promote price competition. Renewable Energy Credits created in a single system are generally recognized within the geographic confines of that system (though not necessarily accepted for compliance with policy in each jurisdiction), but they may or may not be recognized outside the geographic area of the system. Liquidity and fungibility will naturally increase if the Renewable Energy Credits can be used in a broader geographic area. Renewable Energy Credit imports and exports between tracking systems (seams), or between a geographic area with a tracking system and one without, are decreased or eliminated as the geographic area expands.

Another benefit of multi-state Renewable Energy Credit market and common tracking system is that it is easier to avoid double counting in the disclosure of each state's electricity system mix. Having a regional tracking system ensures that these adjustments are made accurately and automatically. In general, the broadest possible geographic area for a Renewable Energy Credit-tracking system is preferred because of these benefits.

3. Competitive Procurement

PJM-EIS does not opine as to how the Commission should implement the Governor's Proposal that electric utilities and alternative retail electric suppliers enter into competitive long-term (e.g. at least ten-year) power purchase agreements with renewable energy generators to meet the annual goals of the Renewable Portfolio Standard. PJM-EIS observes that no other states in the PJM market have required long term contracts. New Jersey, Maryland, Pennsylvania and the District of Columbia are all endorsing a regional Renewable Energy Credit based market that will be enabled through the GATS.

The generation output of renewable resources, in general, are inherently of intermittent production and thereby require greater flexibility in meeting standards than can be provided by long term unit specific contracts. A Renewable Energy Credit-based market can provide greater flexibility for a supplier to precisely match their Renewable Portfolio Standard requirements, and therefore could be more cost effective and easier to administer.

4. Interstate Renewable Energy Trading

PJM-EIS does not opine as to what the parameters of a study on the feasibility of interstate trading of renewable energy credits should be as identified in the Governor's Proposal. However, PJM-EIS notes that the GATS project was initiated in response to various state commission inquiries with existing and evolving state requirements for both renewable portfolio standards and fuel mix and emissions disclosure. Many states in the PJM market, including Illinois, have fuel mix and/or emissions disclosure requirements. New Jersey, Maryland, Pennsylvania and the District of Columbia all have portfolio standard requirements that will be implemented through a renewable energy credit market enabled through certificates. PJM-EIS'

GATS is a regional certificate based tracking system that will help states effectively implement their state standards.

The GATS can meet a state's requirement for a renewable energy credit, certificate based tracking system even if the entire state is not within the PJM market, e.g., the Midwest ISO and PJM operate in different parts of Pennsylvania and each operate in Illinois as well. Like the situation in Pennsylvania, PJM-EIS emphasizes that any generation resource within the State of Illinois but not located in the PJM service territory, can register for the GATS services and have certificates created to use within PJM or to be exported outside of PJM. As noted above, however, the generation resource must be eligible for renewable portfolio standards within a PJM state. The verification of the generator's eligibility to satisfy Illinois requirements is a responsibility of Illinois and should occur prior to the certificate creation so that the information is included on the certificate at the time it is created by the GATS. Suppliers seeking to buy certificates to meet their Illinois requirements then would know prior to purchasing certificates whether the certificates are eligible to satisfy the Illinois requirements.

The proposed GATS would record (or is able to record) the information that is inherently contemplated under the Governor's Proposal. The current construct for the GATS envisions that the market participants, both generators and suppliers, who will be trading certificates will have access to their own accounts in the GATS. A bulletin board feature will help facilitate the pairing of buyers and sellers of certificates, with transactions occurring bilaterally.

5. Penalties for Noncompliance

PJM-EIS does not opine as to what information should be required to demonstrate compliance with the provisions of the Governor's Proposal. However, PJM-EIS observes that:

- New Jersey has a solar alternative compliance payment (ACP) of $300 per MWh, a Class I and II ACP of $50 per MWh;
- Maryland has an ACP of $20 per MWh for Tier 1 and $15 per MWh for Tier 2;
- Pennsylvania has an ACP of $45 per MWh for Tier I (except solar) and Tier II, and an ACP for solar of 200% of the average market value for solar Renewable Energy Credits sold in the RTO; and
- District of Columbia has an ACP of $25 per MWh for Tier 1, $10 per MWh for Tier 2 and $300 per MWh for solar.

C. PJM-EIS Comments to Energy Efficiency Portfolio Standard Issues Identified in the Request for Public Comment

In the following comments, PJM-EIS offers specific responses to some of the issues raised by the Commission in the Energy Efficiency Portfolio Standard section of the Request for Public Comment.

1. Energy Efficiency Procurement Requirement

PJM-EIS does not opine as to how the Commission should implement the Energy Efficiency Portfolio Standard of the Governor's Proposal.

PJM-EIS does note, however, that the proposed standards combine both energy efficiency and demand response in one metric. Besides Pennsylvania, PJM-EIS is not aware of any other portfolio standard that includes demand side resources. Given the different characteristics of these two resources (energy efficiency as a permanent reduction in overall usage versus demand response as a dispatchable resource that shifts load from critical peak periods), PJM-EIS contemplates whether two separate metrics should be considered by the Commission. In support of PJM-EIS' suggestions, PJM-EIS looks to the Pennsylvania

Alternative Energy Portfolio Standards legislation which includes Demand Side Management as a Tier II alternative energy source and establishes percentages of energy to be sold from Tier II sources.

2. Competitive Procurement

PJM-EIS does not opine as to how the Commission should implement the Governor's Proposal that electric utilities and alternative retail electric suppliers enter into competitive long-term (e.g. at least ten-year) contracts with efficiency services providers to meet the annual goals of the Energy Efficiency Portfolio Standard.

III. CONCLUSION

PJM-EIS appreciates the opportunity to offer comments to the Commission regarding the Governor's Proposal. PJM-EIS welcomes the opportunity to discuss further details regarding how the GATS may be used by Illinois to facilitate supplier compliance with the Governor's Proposal should it be adopted.

Respectfully submitted,

Joseph J. Kerecman,
Vice President
PJM Environmental Information Services, Inc.
Dated: April 5, 2005
DMS 318602